



FEDERAL ELECTION COMMISSION
Washington, DC 20463

SENSITIVE

MEMORANDUM

TO: Commissioners
General Counsel Norton
Staff Director Pehrkon

FROM: Office of the Commission Secretary *VAV*

DATE: July 30, 2002

SUBJECT: Statement of Reasons for MUR 4530

Attached is a copy of the Statement of Reasons for MUR 4530
signed by Commissioner Sandstrom . This was received in the
Commission Secretary's Office on Tuesday, July 30, 2002 at
3:53 p.m.

cc: Vincent J. Convery, Jr.
OGC Docket (5)

Attachments

22-04-405-5007



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

SENSITIVE

BEFORE THE FEDERAL ELECTION COMMISSION

In the Matter of)
)
DNC Services Corporation/Democratic) MUR 4530
National Committee and its treasurer)

STATEMENT OF REASONS

On May 8, 2001, by a 3-3¹ vote, the Commission failed to find probable cause to believe that the DNC Services Corporation/Democratic National Committee and its treasurer ("DNC") violated 2 U.S.C. § 441e(a) with respect to a \$150,000 contribution accepted by the DNC from K & L International, Inc. The DNC disgorged this contribution.

K&L, a California corporation, was owned and controlled by Chong Kim, a U.S. citizen. The company was a joint venture for Kim and Robert Lee, a U.S. citizen, to undertake foreign construction projects. Larry Wallace, a DNC lay fundraiser and consultant to K & L International, solicited this contribution to the DNC. The DNC's sole contact with K&L was through Kim, Lee, and Wallace, all U.S. citizens. DNC Reply Brief at 69 (citing General Counsel's Brief at 139, 142-43).

The DNC writes in its response:

What the DNC knew is that this was a U.S. corporation owned by U.S. citizens. The DNC had no information at all at the time of the contribution that raised any genuine questions about the legality of any contribution by such a corporation. Indeed, even if such questions had been raised, the DNC would not have been able to determine that there was anything unlawful about the contribution: even after conducting its own extensive investigation in 1997, the DNC was unable to determine that any foreign source funds were involved.

A key reason no conceivable investigation by the DNC would have turned up any problem with the contribution is that, even if the DNC had known that [Chong Kim & Associates'] contribution of funds to K&L came from a transfer of funds from a Korean corporation [Il Sung Construction Co., Ltd], it would not be clear that those funds were anything other than a payment for legitimate business

¹ Commissioners Mason, Smith and Wold voted in the affirmative.

22-04-405-5008

reasons. Chong Kim, who controlled both K&L and CK&A, testified that the \$200,000 payment to CK&A which was eventually transferred by Kim to a K&L account to cover the K&L contribution to the DNC represented professional fees legitimately earned in the ordinary course of CK&A's architectural work. *See* DNC Reply Brief at 70-71 (*emphasis in original*).

Indeed, the Office of General Counsel ("OGC") brief does not allege the DNC knew the money originated from foreign sources. Rather, OGC averred that the "combination of circumstances" surrounding the contribution should have raised questions by the DNC. General Counsel's Brief at 143. Such circumstances included initial payment by cashier's check. *Id.* OGC argues, for example, that the receipt of such a large contribution from an "obscure corporation" should have alerted the DNC to a potential problem. *Id.* However, Richard Sullivan testified in his deposition that Lee had introduced himself as a prominent developer and was a "long-time Democratic contributor, verified by Larry Wallace." *Id.* (quoting FEC depo. of Sullivan at 158-59). If the DNC had a regulatory obligation under these circumstances to make further inquiry, the source of that obligation is unclear. Regardless of whether such an obligation exists, it is difficult to see how the DNC can be cited for knowingly accepting a foreign contribution when, as in this case, the DNC did inquire and failed to discover the underlying illegality of the contribution.

For as the facts of this case demonstrate, the DNC did question the contribution. Counsel for the DNC interviewed Lee "extensively" on or about November 1996 and "was satisfied that the contribution was made with funds contributed, as capital, by Chong Kim from his own resources or those of his company." DNC Reply Brief at 69-70. Outside counsel to the DNC reviewed the contribution once again in February 1997 and again the contribution was deemed lawful. *Id.* at 70. Only after the House Committee and Department of Justice launched an investigation involving subpoenas of bank records was the contribution deemed to have originated with foreign money from Il Sung Construction. *Id.* Once that finding was made known, the DNC promptly disgorged the contribution. *Id.*

The undersigned concluded that there was insufficient evidence the DNC knew that the contribution from K & L International had actually originated from foreign sources.

7/30/2002

Date



Karl J. Sandstrom, Vice Chairman

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